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FISCAL IMPACT STATEMENT

LS 7670
BILL NUMBER: HB 1666

NOTE PREPARED: Jan 9, 2003
BILL AMENDED:

SUBJECT: Financing Development in Distressed Counties.

FIRST AUTHOR: Rep. Murphy
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill authorizes the use of state tax revenue, exceeding a base allocation amount, to be used for payments of bonds issued, loans entered into, or leases entered into for an industrial development project in a distressed area. The bill provides that the same definition of distressed area be used for programs involving industrial development projects and the growth investment program fund. The bill appropriates the collected tax revenue to this use.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Indiana Department of Commerce (IDOC) & Indiana Development Finance Authority (IDFA)*: The bill requires the Indiana Development Finance Authority (IDFA) to review and designate industrial development tax allocation areas in distressed counties. Currently, there are 35 counties that would qualify under the bill for tax allocation areas. Under current statute, the IDOC must provide administrative assistance to the IDFA. Currently, the IDFA has a staff of approximately eight. The additional administrative responsibilities established under the bill presumably could be absorbed by these agencies given their existing budgets and resources. The December 7, 2002, state staffing table indicates that the IDOC has 52 vacant full-time positions, including regional office positions.

Department of State Revenue (DOR): The bill gives the DOR responsibility for determining base (sales and income tax) allocation amounts for purposes of tax allocations in industrial development project areas. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Other Administrative Impacts: The Auditor of State is required to administer the industrial development project area funds established in connection with tax allocation areas designated by the IDFA. These expenses presumably could be absorbed given the DOR's existing budget and resources. The bill also requires the Department of Workforce Development (DWD) to annually provide to the IDFA a list of the counties that meet distress criteria for purposes of designating tax allocation projects.

Explanation of State Revenues: The bill provides for the allocation of incremental state Sales, Use, and Adjusted Gross Income (AGI) tax revenue to pay for industrial development projects designated by the Indiana Development Finance Authority (IDFA). These tax allocation projects are limited to counties determined under the bill to be "distressed areas." Currently, there are 35 counties that meet the distress criteria specified in the bill. The amount of incremental tax revenue that could potentially be allocated to pay the costs of tax allocation projects statewide is indeterminable. The amount of incremental tax revenue diverted to tax allocation projects presumably does not represent a revenue loss to the state to the extent that the incremental revenue is attributable to the industrial development project or subsequent economic activity in project facilities. However, the state does incur a revenue loss to the extent that the diverted revenues are attributable to underlying growth in tax revenue. Sales and Use Tax collections increased from FY 1998 to FY 2002 by an annual average of 3.75%. During the same period, individual AGI Tax collections increased about 0.8% annually. (This includes the one-year decline in FY 2002 of about 6.3%.) From FY 1998 to FY 2001, however, individual AGI Tax collections increased by an average of 3.26% annually. These provisions of the bill are effective July 1, 2003. Thus, depending upon how quickly the IDFA begins the tax allocation project designation process, the bill could potentially impact state revenue beginning in FY 2004, but more likely in FY 2005.

The bill authorizes the IDFA to designate an industrial development project as a tax allocation project, provided it is located in a county that the Department of Workforce Development (DWD) has determined to be a distressed area. A county is distressed if: (1) the county annual unemployment rate exceeds the state annual unemployment rate in each of the preceding five calendar years; or (2) the county annual unemployment rate is at least double the state annual unemployment rate in the preceding calendar year. Based on annual unemployment indicators from 1997 to 2001, 35 counties would meet the distress standard. Sales, Use, and AGI taxes allocated to pay development project costs must be: (1) attributable to the construction and development of the project and taxable events occurring in the facilities developed through the project; and (2) exceed the *base allocation* amount for the project area. The base allocation amount, determined by the Department of State Revenue, is the amount of Sales, Use, and AGI taxes yielded from taxable events in the project area in the year prior to the development project. Under the bill, incremental Sales, Use, and AGI taxes from development project areas must be deposited in an Industrial Development Project Area Fund for that project. This money must be used only to pay bonds, loans, or leases issued to pay for industrial development projects in the allocation area. Money in such an Industrial Development Project Area Fund does not revert to the state General Fund at the end of the fiscal year. However, once all project costs and obligations are paid, money remaining in such a Fund reverts to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, Indiana Development Finance Authority, Department of State Revenue, Department of Workforce Development, Auditor of State.

Local Agencies Affected: Local government units.

Information Sources: *2001 Annual Report*, Indiana Development Finance Authority.

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